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Salim Raza stresses need for better alignment of monetary and regulatory perspectives

Syed Salim Raza, Governor State Bank of Pakistan has stressed the need for better alignment of monetary and regulatory perspectives and use of varied policy instruments in order to avoid re-emergence of recent turmoil in the international financial markets.

Presiding over the Quaid-e-Azam lecture entitled: 'The Design and Conduct of Monetary Policy: Lessons for Developing Countries' arranged by Pakistan Society of Development Economists (PSDE) at a hotel in Islamabad this afternoon, Mr. Raza said that there is a considerable debate and reassessment of both monetary policy targets and instruments in the aftermath of the global financial crisis. Dr Mohsin S. Khan, a senior fellow at the Peterson Institute of International Economics, Washington DC delivered the lecture on the topic.

"By and large, the emerging markets were little affected from the pure financial crisis, but felt the backlash of the ensuing economic slowdown," Mr. Raza said. He, however, added the flaws that emerged in the macroeconomic framework of the developed world had not so much to do with the basic objective – low inflation and a low output gap as the ultimate goals are still directionally relevant – but has more to do with governance in regulatory policies that allowed financial leverage and financial engineering to progressively widen the multiple between the real and the financial economies.

SBP Governor pointed out that once the process of unscrambling the financial overvaluation began, massive fiscal intervention and regulatory reform became the building blocks for stabilization. He said the fiscal policy in the developed world had increasingly come to be seen as a less relevant counter cyclical tool, given that the great growth in depth and diversification of financial markets had greatly increased the efficacy of monetary policy instruments.

Mr. Raza opined that financial regulations in the developed world continued to focus on the health and performance of individual institutions, and to some extent on rectifying market distortions caused by unfair trading practices, but the macroeconomic implications of the massive build up of systemic liabilities were largely ignored in the confidence that market self regulation would ensure secure underpinning against any catastrophic risk event.

Appreciating the services of Dr. Mohsin Khan, the SBP Governor said: 'Dr Khan's reputation and accomplishments need no introduction, and his vast experience with monetary policy development in both global and the emerging markets is reflected in the considerable volume of written work he has produced, and is producing on the subject'.
